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INCREASE IN PUBLIC DEBT LIMIT

JULY 27, 1989.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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Mr. ROSTENKOWSKI, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H.R. 3024]

The Committee on Ways and Means, to whom was referred the bill (H.R. 3024) to increase the statutory limit on the public debt, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

I. SUMMARY

H.R. 3024 provides a temporary increase of $70 billion in the permanent public debt limit, which is $2,800 billion. The temporary increase will go into effect on enactment, and the $70 billion temporary increase will expire at the close of October 31, 1989.

The bill also modifies the accounting in the public debt limit to provide that bonds issued on a discount basis will be counted in the public debt limit at the original issue price plus periodic accruals of interest. At maturity of such discounted bonds, the public debt limit will carry them at their face value which is equal to the original issue price plus the interest which accrued over the period to maturity.

II. EXPLANATION OF THE BILL

PRESENT LAW

A. Increase in public debt limit

The present permanent public debt limit is $2,800 billion. As a permanent limit on the amount of debt subject to limit, it has no expiration date.

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B. Accounting for debt obligations issued on a discount basis

Debt issued by the United States presently is accounted for in the debt subject to limitation at the amount shown on the face of the debt instrument; this is the amount paid to the creditor when the issue matures. Interest is paid on this debt to the creditor semi-annually and is included in budget outlays as interest on the public debt.

Exceptions are made for two types of debt. Series EE savings bonds are counted in the public debt at their issue price plus periodic interest accruals. These bonds may be redeemed at the option of the holder, and their valuation at issue price plus accrued interest is an accurate reflection of the potential current liability of the United States. In addition, Treasury bills which are obligations issued with less than one year to maturity are included in the public debt limit on a discounted basis.

REASONS FOR THE BILL

A. Public debt limit

The present operating cash balance and the unused portion of the present debt limit will be exhausted on August 15, 1989, unless Congress passes an increase in the public debt limit before the August district work period begins. In the first three days of the month, the Treasury Department provides a cash advance to the Social Security Trust Fund which is in anticipation of estimated payroll tax receipts during the month. In addition, almost all entitlement programs pay benefits during those three days, including monthly military and civil service pension benefits and veterans benefits. Lastly, on August 15, interest payments in excess of $17 billion are due on outstanding United States notes and bonds.

An increase in the temporary debt limit through October 31 is believed by the committee to allow sufficient time for Congress to complete its deliberations on the budget reconciliation bill. At that time, H.J. Res. 280 can be approved because it provides sufficient additional public debt limit to meet budgetary needs for issuing debt through fiscal year 1990.

B. Accounting for the public debt limit

There is an increasing interest among creditors for purchasing zero-interest discounted debt obligations. Presenty, holders of traditional face-value U.S. bonds may strip the bonds of their interest liability and sell the bond and interest rights separately. By changing the rules regarding issuance of public debt, the Treasury Department will be authorized to issue such discounted bonds to the public directly and earn whatever financial efficiencies accrue with this procedure.

EXPLANATION OF THE BILL

A. Public debt limit

The present law permanent debt limit is increased temporarily by $70 billion for the period beginning on the date of enactment and ending with the close of October 31, 1989. On November 1, 1989, if no other legislation relating to the debt limit has been ap-

proved, the debt limit will revert to the permanent level of $2,800 billion.

B. Accounting for the public debt limit

The Secretary of the Treasury is authorized to issue United States debt obligations at discount, including zero-interest bonds. Discounted bonds may be issued in all maturities, but the bonds, with the exception of Series EE savings bonds, may not be redeemed at the option of the holder. The public debt limit will include such discounted bonds at the original issue price of the obligation plus accruals of interest on the debt which will be credited to the bond at monthly intervals at the interest rate stipulated at the time of issue. As a result of crediting the accrued interest periodically, the interest earnings on the bonds will be compounded throughout the period during which it is outstanding. The annual interest accruals also will be reflected in the budget.

Although there presently is a market for discounted bonds, neither the committee nor the Treasury Department anticipate that all United States bonds will be issued on a discount basis. A substantial portion of bondholders prefer bonds issued at maturity face value because those bonds pay interest semi-annually, and the assurance of regular interest payments is a matter of primary concern to them.

As increasing amounts of discounted bonds are issued in the future, the time pattern of increases in the outstanding public debt will diverge from past experience. For example, a 10-year bond with an 8 percent interest rate will be issued at $456, slightly less than half of its $1,000 maturity value, and $456 is the amount which will included in the public debt subject to limit. The amount of debt will increase through the 10-year period to maturity as accrued interest periodically is credited to the present value of the bond.

III. Costs of Carrying Out the Bill and Vote of the Committee in Reporting the Bill

Budget Effects

In compliance with clause 7 of Rule XIII of the Rules of the House of Representatives, the following statement is made relative to the effect on the revenues of H.R. 3024, as reported.

The committee does not believe that the changes made by this bill in the debt limit will result in any revenue changes, either in the current fiscal year or in any of the 5 fiscal years following that year.

The Treasury Department agrees with this statement.

Committee Vote

In compliance with clause 2(l)(2)(B) of Rule XI of the Rules of the House of Representatives, the following statement is made relative to the vote by the committee on the motion to report the bill. The bill was ordered favorably reported by a voice vote.

IV. Other Matters Required To Be Discussed Under House Rules

In compliance with clauses 2(l)(3) and 2(l)(4) of Rule XI of the Rules of the House of Representatives, the following statements are made with respect to committee's action on H.R. 3024, as reported.

Oversight Findings

With regard to subdivision (A) of clause (2)(l)(3), the committee advises that its hearings led to the conclusion that an increase in the public debt limit is required at the present time because the statutory limitation in present law will be insufficient by August 15, 1989, to refund outstanding debt as it matures and to make payments for interest on public debt and other authorized government operations from the general fund in the Treasury Department.

New Budget Authority and Tax Expenditures

In compliance with subdivision (B) of clause 2(l)(3), the committee states that the changes made by the bill provide no new budget authority and no new increased tax expenditures.

Consultation with Congressional Budget Office on Budget Estimates

With respect to subdivision (C) of clause 2(l)(3), the committee advises that no estimate has been prepared by the Director of the Congressional Budget Office relative to the provisions of H.R. 3024.

Oversight by Committee on Government Relations

With respect to subdivision (D) of clause 2(l)(3), the committee advises that no oversight findings or recommendations have been submitted to the committee by the Committee on Government Operations regarding the subject matter of the committee bill.

Inflationary Impact

In compliance with clause 2(l)(4) of Rule XI, the committee states that the debt limitation change is not expected to have an inflationary impact on prices and costs in the operation of the national economy.

V. Changes in Existing Law Made by the Bill, as Reported

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

Section 3101 of Title 31, United States Code

§ 3101. Public debt limit

(a) * * *

(b) The face amount of obligations issued under this chapter and the face amount of obligations whose principal and interest are guaranteed by the United States Government (except guaranteed obligations held by the Secretary of the Treasury) may not be more than $2,800,000,000,000 outstanding at one time, subject to changes

periodically made in that amount as provided by law through the congressional budget process described in Rule XLIX of the Rules of the House of Representatives or otherwise.

(The bill temporarily increases the public debt limit by $70,000,000,000.)

[(c) The face amount of beneficial interests and participations (except those held by their issuer) issued under section 302(c) of the National Housing Act (12 U.S.C. 1717(c)) from July 1, 1967, through June 30, 1968, and outstanding at any time shall be included in the amount taken into account in deciding whether the face amount requirement of subsection (b) of this section has been exceeded. This subsection does not require a change in the budgetary accounting for beneficial interests and participations.]

(c) For purposes of this section, the face amount, for any month, of any obligation issued on a discount basis that is not redeemable before maturity at the option of the holder of the obligation is an amount equal to the sum of—

(1) the original issue price of the obligation, plus

(2) the portion of the discount on the obligation attributable to periods before the beginning of such month (as determined under the principles of section 1272(a) of the Internal Revenue Code of 1986 without regard to any exceptions contained in paragraph (2) of such section).

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